

# WEALTH TRANSFER IN ILLINOIS - METHODOLOGY

America is in the midst of a remarkable time -- a time when wealth from one of our most prosperous periods in time is passing from one generation to the next. This inter-generational transfer of wealth trend offers significant opportunities for most American communities to create community foundations and endowments capable of supporting community improvement work over time.

Researchers at Boston College, in their landmark study *Millionaires and the Millennium*, created estimates for inter-generational wealth for the United States. We encourage you to visit the web site for the Center on Wealth and Philanthropy within Boston College at [www.bc.edu/research/swri/](http://www.bc.edu/research/swri/) to learn more.

The RUPRI Center has developed a methodology for creating scenarios for inter-generational wealth transfer for states and counties. This section summarizes our basic methodology for creating these scenarios. We would be happy to personally explore our approach with other interested parties on a request basis.

The following components constitute the methodology we employed in conducting this analysis:

1. Our methodology has been further informed and shaped by the work of the Federal Reserve Bank of the United States (FED). The FED, through its Survey of Consumer Finances (2001 and 2004), provides

important understanding of the relationships between community household demographics and asset formation and wealth holding.

2. Our starting point for this analysis is “current net worth” (CNW) estimates for the United States and for each of the 50 states. The CFED ([www.cfed.org](http://www.cfed.org)) estimates current net worth based on a sampling of U.S. households. Net worth includes typical assets like houses and investments, less debt. To localize CNW we employ four sets of asset indicators:

- Dividends, Interest and Rent Income.
- Asset Holdings by Household Age.
- Asset Holdings by Income Level.
- Real Property Asset Holdings.

Dividends, interest and rent income are estimated by the U.S. Bureau of Economic Analysis for each state and county. This indicator provides an estimate of certain kinds of asset holdings including stocks, bonds, cash accounts and rental property.

CNW typically increases dramatically by age. As households get older they generally have higher CNW levels than younger households.

CNW typically increases with income levels. As income levels rise so do CNW levels. We employ national data for wealth holding by income level coupled with specific household income levels by state or county.

Finally, we employ state-and-county specific information on real property to support our fourth indicator.

These indicators are used to adjust state CNW to a point estimate for the county.

Two types of assets are excluded from our CNW estimates. One is the value of personal assets like furniture, vehicles, art and collectibles. The second type of assets excluded are defined-benefit pensions which according to the FED provide lifetime income to 57% of Americans, but may have no transferable value in an estate. Both exclusions mean our CNW estimates are conservative.



3. Once CNW values are estimated we explore historical population, income and economic trends. When possible we consider a 50-year history for each locality with particular reflection on the most recent 20-year period. Current net worth provides the base for beginning our analysis. Over time new wealth is created that expands this base. We consider population and economic trends to provide estimates of gross wealth creation. Then we factor in information on the likely wealth formation rates. This step enables us to estimate wealth creation over the 50-year study period.

4. Each year wealth becomes available primarily through the death of household heads. We employ information on the age structure of the population and death rates to estimate the likely wealth that is available for transfer over five year periods during the 50-year time frame. These values become our TOW estimates.

5. An advisory group of state and regional experts is engaged through the sponsoring organization to help us test and refine our assumptions regarding future growth. Our baseline growth assumptions are stronger for the first 25 years of the period and become more conservative in the out years.



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### Time Period for Analysis

Our original analysis incorporated a 2000 to 2050 time frame. We have since adjusted this time frame to cover the period of 2005 through 2055. Creating scenarios reaching out 50 years is somewhat heroic. But this time frame provides a full generational picture of the transfer dynamic.

6. The final step in our methodology is to estimate the timing of the transfer of inter-generational wealth over the 2005 to 2055 time frame. These estimates are based on our model estimating the number of deaths (therefore estates) triggered during each five-year period throughout the analysis time frame.

### For More Information . . .

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